

Annex 1. Creditworthiness requirements

B1.1.

A party who wishes to become a shipper or end user with exit capacity must satisfy the creditworthiness requirements arising from a credit analysis performed by the network operator of the national grid in accordance with the provisions laid down in this Annex 1, depending on the risk category to which this party is assigned on the basis of the credit analysis.

B1.2.

The network operator of the national grid will carry out the credit analysis as follows:

- a. When determining the risk category, relationships with parent companies or affiliated companies are also taken into account;
- b. If a published credit rating is available, the lowest credit rating as published by Moody's or Standard & Poors shall be used;
- c. If there is no published credit rating relating to the party, then the risk category shall be determined on the basis of the annual reports (annual report + annual accounts) of the last three years. For this purpose, the most important financial ratios are liquidity, solvency and profitability;
- d. Where there is no published credit rating or annual reports for the last three years, the shipper or end user with exit capacity will be assigned to the high risk category.

Table 1: Published credit ratings and risk categories

<u>Moody's credit rating</u>	<u>Standard & Poors credit rating</u>	<u>Risk category</u>
Aaa, Aa, A	AAA, AA, A	Low
Baa1, Baa2	BBB+, BBB	Medium
Baa3 or lower	BBB- or lower	High

B1.3.

In exceptional cases, such as where there is a "negative outlook" from Moody's or Standard & Poors, large obligations that are not included in the balance sheet, extreme outcomes produced by financial ratios, or unusual developments within the company or business sector, the network operator of the national grid will place the party in a higher or lower risk category.

B1.4. Financial security

A shipper or end user with exit capacity which is assigned to the high risk category by the network operator of the national grid must provide financial security. In such cases, the amount of the credit limit will be equal to the amount of the financial security issued.

A shipper or end user with exit capacity which is assigned to the medium or low risk category by the network operator of the national grid may choose to provide additional financial security in order to increase its credit limit. The amount of the credit limit must cover at least the exposure.

The network operator of the national grid publishes on its website the types of financial security it accepts in each case. The financial security must continue to be valid for at least 4 months beyond the expiry date of the contract.

B1.5. Exposure

Total exposure consists of:

1. exposure relating to the contracting of services; and
2. exposure relating to balancing.

Ad 1.

For shippers, the exposure under contracts having a term of more than 3 months is equivalent to the value of 3 times the maximum monthly invoice (including VAT) and, for the end user with exit capacity, is equivalent to the value of 3 times the maximum monthly invoice (including VAT) minus € 20,000 per month.

For shorter contracts, the exposure is lower in proportion to the length of the term compared to the period of 3 months.

The end user with exit capacity must provide financial security no later than two months prior to the date of commencement of the contract. Exposure under contracts becomes greater if there are any invoices outstanding for longer than two months.

Ad 2.

The balancing exposure is calculated as the net result of the sum of:

1. the current value of the portfolio imbalance signal multiplied by the gas price as described in 4.1.6.4; and
2. outstanding amounts (whether these have been invoiced or not) (including VAT) as a result of using the WDM transactions; and

3. outstanding amounts (including VAT) relating to the settlement of deviations between accountable allocations and the near-real-time values pursuant to 4.1.6; and
4. the outstanding amounts (whether invoiced or not) (including VAT) in response to the Linepack Flexibility Service.

B1.6. Credit limit

The network operator of the national grid will, for each shipper or end user with exit capacity, set an initial credit limit based on an analysis of financial documents.

So that the financial analysis can be performed, the shipper or end user with exit capacity provides information to the network operator of the national grid concerning the structure of the group of companies to which the shipper or end user with exit capacity belongs and the ultimate parent company and the annual accounts from the last 3 years approved by an accountant (including balance sheet, income statement, cash flow statements and notes to the annual accounts).

A shipper or end user with exit capacity may conclude contracts with the network operator of the national grid until its credit limit is reached. A shipper or end user with exit capacity that is assigned to the high risk category has a credit limit equivalent to the financial security issued.

A shipper or end user with exit capacity that is assigned to the medium risk category has an initial credit limit corresponding to a percentage of 3% of shareholder's equity minus intangible fixed assets and may potentially increase its credit limit further by providing additional financial security. A shipper or end user with exit capacity that is assigned to the low risk category has an initial credit limit corresponding to a percentage of 6% of shareholder's equity minus intangible fixed assets and may potentially increase its credit limit further by providing additional financial security. The network operator of the national grid will charge €100,000 to the calculated credit limit as a standard imbalance reservation.

Additional financial security is required for parties in any risk category if the exposure exceeds the credit limit.

If a shipper nevertheless refuses to submit additional security when being requested to do so by the network operator of the national grid within one working day of that request, the network operator of the national grid will inform all suppliers that switch messages containing this shipper will no longer be accepted and the network operator of the national grid will inform all shippers that nominations or partial nominations for sales transactions on the virtual market of this shipper will no longer be accepted.

In exceptional cases, such as extreme results for financial ratios or unusual developments within the company or sector, the network operator of the national grid may assign a higher or lower credit limit to the party.

The network operator of the national grid will, upon request, provide the shipper or end user with exit capacity with information about the current credit margin.

A higher or lower credit limit may be assigned to shippers and end users with exit capacity in the medium or low risk category based on operational cash flow and profits:

- a. if net profit is positive, the initial credit limit is increased by 10%;
- b. if net profit is negative, the initial credit limit is decreased by 10%;

- c. if the operational cash flow is positive, the initial credit limit is increased by 5%;
- d. if the operational cash flow is negative, the initial credit limit is decreased by 5%.

B1.7. Provision of information

The shipper or end user with exit capacity must inform the network operator of the national grid immediately of any change or situation that may be reasonably expected to lead to a different result for the credit analysis.

B1.8. Significant change in creditworthiness

A shipper or end user with exit capacity must, within five business days of receipt of a request from the network operator of the national grid, submit additional security if a significant deterioration in creditworthiness, determined on the basis of the information supplied under B1.7 and leading to an assignment to a higher risk category in accordance with B1.2, occurs in respect of the shipper or end user with exit capacity, an affiliated company or a party who is acting as guarantor, as a result of which it is reasonable to assume that the shipper or end user with exit capacity would be less able to meet its financial obligations or which leads to a deterioration in the extent to which the network operator of the national grid can make a claim on the shipper or end user with exit capacity or on parties acting as their guarantors. For this purpose, the network operator of the national grid may require additional financial security as mentioned in B1.4.

If information becomes available to the network operator of the national grid, supplied in accordance with B1.7, indicating that a significant improvement in the creditworthiness of the shipper or end user with exit capacity has occurred, as a result of which this party will be assigned to a lower risk category in accordance with B1.2 and the requirement for security (or supplementary security) is no longer applicable (in full or in part), the network operator of the national grid will permit the shipper or end user with exit capacity to withdraw the security provided for that proportion of the risk.

B1.9. Licensing LB

For a shipper with a licensing LB, the network operator of the national grid will determine the monthly invoice, as referred to in B1.4, by multiplying the shipper's estimated exit capacity, based on the contracted exit capacity of the shipper for the previous year, by the average tariff at exit points linked to a distribution network. If a shipper had not contracted any exit capacity at exit points linked to a distribution network during the previous year, the network operator of the national grid will charge €50,000 to the existing credit margin; in such cases, the network operator of the national grid will adjust the shipper's credit limit every quarter as a result of changes to the contracted exit capacity at exit points linked to a distribution network. The financial security must be valid from the moment that the shipper is granted licensing LB until 2 months after withdrawal of the licence.